

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-07 FRB-03 INR-07

NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

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C O N F I D E N T I A L WARSAW 7046

DEPT PASS TREASURY

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: PRICE RISES AND DEVALUATION RUMORED

1. SUMMARY: RUMORS OF SWEEPING PRICE RISES AND DEVALUATION
CONTINUE TO BE WIDESPREAD. END SUMMARY.

2. IN RECENT WEEKS, POLAND HAS BEEN INUNDATED BY RUMORS THAT
THE GIEREK REGIME IS PLANNING SWEEPING PRICE RISES AND
PROBABLY A DEVALUATION AS WELL WITHIN THE NEXT THREE MONTHS.
RUMORS OF PRICE INCREASES HAVE REACHED SUCH A STATE THAT
PREMIER JAROSZEWICZ FELT CONSTRAINED ON OCTOBER 1, TO REFER
TO THEM DIRECTLY DURING A SPEECH TO DOCK WORKERS IN GDANSK.
JAROSZEWICZ TRIED TO GIVE THE IMPRESSION THAT GENERAL PRICE
RISES WERE NOT BEING CONTEMPLATED, BUT HE REFRAINED FROM
SAYING THAT PRICES WOULD BE HELD FIRM. HE DID NOT MENTION
THE DEVALUATION RUMOR.

3. IT IS NOT LIKELY THAT JAROSZEWICZ'S STATEMENT WILL
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GREATLY SLOW UP THE RUMOR MILL, SINCE TOO MANY OTHER STATE-

MENTS BY HIM AND OTHER POLISH GOVERNMENT SPOKESMEN HAVE SEEMED DESIGNED TO PREPARE THE GROUND FOR MAJOR CHANGE IN PRICES. THE SHARP RISES IN PRICES OF RAILWAY TICKETS AND CIGARETTES, AND PRESS REPORTS THAT MANUFACTURING UNITS WILL PAY 25 PERCENT MORE FOR MANY RAW MATERIALS HAVE ADDED TO THE FEELING THAT MORE CONSUMER PRICE RISES ARE IN STORE. FINALLY, THE RECURRENT SHORTAGES OF MEAT, DAIRY PRODUCTS, AND SOME OTHER ITEMS, CONVINCED INCREASING NUMBERS OF POLES THAT THE FROZEN CONSUMER PRICES OF BASIC COMMODITIES HAVE TO BE INCREASED SO AS TO CUT THE DEMAND FOR THESE ITEMS.

4. THE GENERAL BELIEF OF THOSE EXPECTING PRICE RISES IS THAT GIEREK WILL NOT MOVE ON SO SENSITIVE AN ISSUE WITHOUT GETTING THE AUTHORIZATION OF THE SEVENTH PARTY CONGRESS WHICH MEETS DECEMBER 8. IT IS ALSO EXPECTED THAT GOMULKA'S 1970 ERROR OF ANNOUNCING PRICE RISES IN THE MIDST OF THE HOLIDAY SEASON WILL NOT BE REPEATED. THEREFORE, THE PRICE MOVES ARE EXPECTED TO OCCUR SOME TIME AFTER JANUARY 15.

5. COMMENT: THE ECONOMIC ARGUMENTS FOR A PRICE RISE REMAIN CONVINCING, BUT THE POLITICAL ARGUMENTS FOR DOING LITTLE

OR NOTHING TO PRICES ARE STRONG AS WELL. IF GIEREK IS TO ENGAGE IN THE MASSIVE PRICE RISES SOME OF HIS ADVISERS SEEM TO BE SUGGESTING, HE WILL TRY TO MAKE THIS MOVE IN THE MOST POLITICALLY ACCEPTABLE MANNER. IT IS IN THIS CONNECTION THAT A DEVALUATION MIGHT PROVE USEFUL.

6. ONE CAN IMAGINE A SCENARIO IN WHICH THE NEEDED PRICE RISES COULD BE WRAPPED UP IN A LARGE PACKAGE OF PRICE-AND-WAGE INCREASES COUPLED WITH A DEVALUATION OF THE OFFICIAL 19.92 ZLOTY/DOLLAR RATE. THE WHOLE PACKAGE MIGHT THEN BE DESCRIBED AS BEING REQUIRED TO KEEP THE POLISH ECONOMY IN TUNE WITH THE INFLATION-RIDDEN WESTERN WORLD, WITH WHICH POLAND IS TRADING ON A GROWING SCALE. NO EXPLANATION WOULD BE FULLY ADEQUATE TO ABSORB ALL THE UNHAPPINESS WHICH WOULD RESULT FROM THE PRICE RISES, BUT EXPANSION OF TIES WITH THE WEST MAY BE AN OBJECTIVE FOR WHICH THE POLISH

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POPULATION WOULD BE WILLING TO MAKE SOME SACRIFICES.

7. A POSSIBLE INTENTION TO DEVALUE THE OFFICIAL RATE COULD EXPLAIN THE RECENT POLISH DEMAND THAT LOCAL DIPLOMATIC MISSIONS PREPAY THE UNEXPIRED PORTIONS OF THEIR 99-YEAR GROUND-RENT LEASES, WHICH ARE DENOMINATED IN ZLOTYS. THESE DEMANDS HAVE PRODUCED CONSIDERABLE MYSTIFICATION ABOUT THE POLISH MOTIVATION, AS WELL AS INDIGNATION, IN LOCAL

DIPLOMATIC CIRCLES.

8. A DOUBLING OF THE 19.92 RATE (WHICH IS MENTIONED IN ONE RUMOR) WOULD HAVE NO IMPACT ON POLISH FOREIGN TRADE, SINCE TRADE WITH NON-SOCIALIST PARTNERS IS CONDUCTED ONLY IN HARD CURRENCIES AND A SHADOW RATE OF ABOUT 50 ZLOTYS PER DOLLAR IS USED FOR INTERNAL CALCULATIONS OF THE PROFITABILITY OF IMPORTS AND EXPORTS. A DEVALUATION WOULD MAKE THE ZLOTY NO LESS INCONVERTIBLE THAN IT IS NOW, BUT IT WOULD PEG IT OFFICIALLY A NOTCH CLOSER TO ITS REAL VALUE. IN THEORY, THIS COULD FACILITATE FUTURE STEPS IN THE DIRECTION OF THE GREATER EXCHANGE-RATE CONVERTIBILITY WHICH MANY POLISH ECONOMISTS HOPE FOR. MOST IMPORTANTLY, A DEVALUATION COULD CONVINCE MANY POLES THAT THE ENTIRE PACKAGE OF PRICE-AND-WAGE RISES REALLY WAS DESIGNED TO ENHANCE ECONOMIC TIES WITH THE WEST.

9. THE ONLY CERTAINTY IN THE THICKET OF RUMORS WHICH CURRENTLY PREOCCUPY WARSAW, IS THAT GIEREK'S GUARANTEE OF UNCHANGED PRICES FOR BASIC COMMODITIES EXPIRES ON DECEMBER 31, 1975. UNTIL A DECISION ON FUTURE POLICY IS MADE AND ANNOUNCED, THE MANUFACTURE AND DISSEMINATION OF RUMORS ON THIS SUBJECT WILL REMAIN A MAJOR PASTIME. THIS MESSAGE OFFERS A SELECTION OF THE CURRENT CROP OF THEORIES WHICH SEEMS TO HAVE A DEGREE OF INTERNAL LOGICAL CONSISTENCY, BUT MAY WELL HAVE NO GREATER CHANCE OF ACCEPTANCE BY THE POLICY-MAKERS THAN SOME OTHER LESS LOGICAL BUT POLITICALLY MORE ACCEPTABLE PROGRAM.

DAVIES

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